

# **Convergence with International Financial Reporting Standards: The Experience of Taiwan**

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# I. Introduction

- Accounting serves as an important mechanism to facilitate *ex ante* decision-making and to “control” *ex post* the behavior of stakeholders.
- The accounting profession has long been concerned with how to prepare financial information that is relevant and reliable.

# I. Introduction

- Almost every country has promulgated her financial accounting standards and reporting regulations to ensure that similar transactions are treated similarly.

# I. Introduction

- National GAAP attempts to ensure comparability of financial information across various companies under a jurisdiction.
- With the rapid development of global markets, capital markets in particular, the comparability issue has started to reach across borders.

# I. Introduction

- At least two approaches have been proposed to solve this international accounting comparability problem.
- Allowing co-existence of different sets of GAAP and letting them compete with each other while users of accounting standards pay a fee to the standard setters (Economic approach).

# I. Introduction

- Convergence toward the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) (Political approach).
- Convergence with IFRS appears to be the dominant approach.

## II. Financial Accounting Standard Setting in Taiwan

- Accounting Research and Development Foundation
  - Delegated by the Securities and Futures Bureau to develop GAAP
  - Established in 1984
  - aimed at enhancing the quality of Taiwan's accounting and auditing practices

# II. Financial Accounting Standard Setting in Taiwan

## – Four committees

- Financial Accounting Standards Committee (FASC)
- Auditing Standards Committee (ASC)
- Valuation Standards Committee (VSC)
- Accounting System Committee
- Training and Education Committee

# II. Financial Accounting Standard Setting in Taiwan

## – Four divisions

- Research Division: to support the development of accounting, auditing and valuation standards
- Education Division: to provide training and educational seminars for accounting professionals; esp. promoting the understanding of newly issued standards.
- Management Division: to provide administrative and logistics support.
- Accounting Research Monthly: to provide a platform for exchanging ideas and knowledge encompassing accounting and auditing standards, financial and business management.

## II. Financial Accounting Standard Setting in Taiwan

- Financial Accounting Standards Committee (FASC)
  - 13 members and 8 advisors
  - Members and advisors come from academia, CPA firms, industry and government agencies.
  - Members and advisors alike serve FASC on a part-time basis without getting paid.

## II. Financial Accounting Standard Setting in Taiwan

- Members and advisors are treated almost the same, except that advisors cannot vote.
- Meetings are held weekly to speed up the convergence with IFRS.
- The draft is exposed to the public to solicit comments and suggestions.
- Each standard must follow a “three reading” procedure before the issuance.

# II. Financial Accounting Standard Setting in Taiwan

- A standard consists of
  - Introduction
  - Explanation (rationale underlying the standards)
  - Standards
  - Appendix (examples and comparisons)
- Financial Accounting Issues Task Force, a task force like the Emerging Issues Task Force in the US, is responsible for interpreting accounting standards.
- To end of 2007, FASC had issued 39 standards and more than 700 interpretations.

# II. Financial Accounting Standard Setting in Taiwan

- Standards issued most recently include
  - SFAS No. 34 Financial Instruments: Recognition and Measurement
  - SFAS No. 35 Impairment of Assets
  - SFAS No. 36 Financial Instruments: Disclosure and Presentation
  - SFAS No. 37 Intangible Assets
  - SFAS No. 38 Non-current Assets Held for Sale and Discontinued Operations
  - SFAS No. 39 share-based payment

# III. Convergence with IFRS: Current State

- Approach to Standard Setting in Taiwan
  - Initial approach to standard setting: US GAAP as the primary reference
  - US GAAP vs. IAS: alternative treatments and disclosure requirements
  - The events such as the conditional endorsement of IOSCO, EU's position on IAS, and the then IASC's development made FASC lean toward IFRS in the late 1990s.

# III. Convergence with IFRS: Current State

- Convergence with IFRS (IAS)
  - Starting in 1999, FASC initiated a three-year comparability project to review and compare the difference between IAS and Taiwanese GAAP.
  - Several study groups were formed and public hearings were held.

# III. Convergence with IFRS: Current State

- The outcome of the comparison and public hearing serves as the basis for revising the then existing standards and for issuing new standards to align with IAS (IFRS).
- Selection criteria: urgency, importance and pervasiveness of transactions
- Exhibit 1: Revised and new standards in the past eight years
- Exhibit 2: Comparison between Taiwanese GAAP and IFRS

# III. Convergence with IFRS: Current State

## Exhibit 1: Revised and New Standards in 2000-2007

SFAS	Standards	Revisions
1	Conceptual Framework for Financial Accounting and Preparation of Financial Statements	2nd revision 2002.10.31 3rd revision 2004.12.30 4th revision 2005.12.22 5th revision 2006.7.20
2	Accounting for leases	Appendix revised 2000.11.23
3	Capitalization of Interest Cost	2nd revision 2001.1.11
5	Long-Term Investments in Equity Securities	3rd revision 2004.12.9 4th revision 2005.9.22 5th revision 2005.12.22

# III. Convergence with IFRS: Current State

SFAS	Standards	Revisions
7	Consolidated Financial Statements	1st revision 2004.12.9 Appendix revised 2005.12.22 2nd revision 2006.11.30
8	Accounting Changes and Prior Period Adjustment	1st revision 2006.7.20
10	Inventories	1st revision 2007.11.29
12	Accounting for Income Tax Credits	1st revision 2005.11.8
14	Accounting for Foreign Currency Transactions and Translation of Foreign Statements	1st revision 2005.9.22
15	Disclosure of Accounting Policies	1st revision 2005.9.22
17	Statement of Cash Flows	1st revision 2005.9.22

# III. Convergence with IFRS: Current State

SFAS	Standards	Revisions
18	Accounting for Pensions	1st revision 2001.2.22 2nd revision 2005.9.22
19	Development Stage Accounting	1st revision 2002.3.21
22	Accounting for Income Taxes	2nd revision 2005.9.22
24	Earnings Per Share	1st revision 2001.11.1
25	Business Combinations- Accounting Treatment under Purchase Method	1st revision 2005.12.22 2nd revision 2006.11.30
28	Disclosure in the Financial Statements of Banks	1st revision 2005.9.22

# III. Convergence with IFRS: Current State

SFAS	Standards	Revisions
30	Accounting for Treasury Stocks	Issued 2000.7.7 Appendix revised 2001.7.5 1st revision 2006.6.22
31	Accounting for Joint Ventures	Issued 2000.9.7 1st revision 2005.9.22
32	Accounting for Recognition of Revenue	Issued 2002.6.13 1st revision 2005.9.22
33	Accounting for Transfers of Financial Assets and Extinguishments of Liabilities	Issued 2003.5.22

# III. Convergence with IFRS: Current State

SFAS	Standards	Revisions
34	Accounting for Financial Instruments	Issued 2003.12.25 1st revision 2005.9.22
35	Accounting for Impairment of Assets	Issued 2004.7.1 Appendix revised 2005.12.22 1st revision 2006.7.20 2nd revision 2006.11.30
36	Disclosure and Presentation of Financial Instruments	Issued 2005.6.23
37	Accounting for Intangible Assets	Issued 2006.7.20
38	Non-current Assets Held for Sale and Discontinued Operations	Issued 2006.11.30
39	Share-based payment	Issued 2007.8.23

# III. Convergence with IFRS: Current State

Exhibit 2: Comparison between Taiwanese GAAP and IFRS

Statements of Financial Accounting Standards ( 1984-2007 )		International Accounting Standards (IFRS) ( 1975-2007 )	
Number	Title	Number	Title
SFAS 1	Conceptual Framework for Financial Accounting and Preparation of Financial Statements	IAS 1	Presentation of Financial Statements
		IAS 16	Property, Plant and Equipment
SFAS 2	Accounting for Leases	IAS17	Leases
SFAS 3	Capitalization of Interest Cost	IAS 23	Borrowing Costs

# III. Convergence with IFRS: Current State

Statements of Financial Accounting Standards ( 1984-2007 )		International Accounting Standards (IFRS) ( 1975-2007 )	
Number	Title	Number	Title
SFAS 5	Long-Term Investments under Equity Method	IAS 28	Investments in Associates
SFAS 6	Related Party Disclosures	IAS 24	Related Party Disclosures
SFAS 7	Consolidated Financial Statements	IAS 27	Consolidated and Separate Financial Statements

# III. Convergence with IFRS: Current State

Statements of Financial Accounting Standards ( 1984-2007 )		International Accounting Standards (IFRS) ( 1975-2007 )	
Number	Title	Number	Title
SFAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
SFAS 9	Contingencies and Subsequent Events	IAS 10	Events Occurring After the Balance sheet Date
		IAS 37	Provisions, Contingent Liabilities and Contingent Assets

# III. Convergence with IFRS: Current State

Statements of Financial Accounting Standards ( 1984-2007 )		International Accounting Standards (IFRS) ( 1975-2007 )	
Number	Title	Number	Title
SFAS 10	Inventories	IAS 2	Inventories
SFAS 11	Construction Contracts	IAS 11	Construction Contracts
SFAS 12	Accounting for Income Tax Credits		n.a.

# III. Convergence with IFRS: Current State

Statements of Financial Accounting Standards ( 1984-2007 )		International Accounting Standards (IFRS) ( 1975-2007 )	
Number	Title	Number	Title
SFAS 13	Accounting by Debtors and Creditors for Troubled Debt Restructuring	IAS 39	Financial Instruments: Recognition and Measurement
SFAS 14	The Effects of Changes in Foreign Exchange Rates	IAS 21	The Effects of Changes in Foreign Exchange Rates

# III. Convergence with IFRS: Current State

Statements of Financial Accounting Standards ( 1984-2007 )		International Accounting Standards (IFRS) ( 1975-2007 )	
Number	Title	Number	Title
SFAS 15	Disclosure of Accounting Policies	IAS 1	Presentation of Financial Statements
SFAS 16	Preparation of Financial Forecasts		n.a.
SFAS 17	Cash Flow Statements	IAS 7	Cash Flow Statements

# III. Convergence with IFRS: Current State

Statements of Financial Accounting Standards ( 1984-2007 )		International Accounting Standards (IFRS) ( 1975-2007 )	
Number	Title	Number	Title
SFAS 18	Accounting for Pensions	IAS 19	Employee Benefits
		IAS 26	Accounting and Reporting by Retirement Benefit Plans
SFAS 19	Development Stage Accounting		n.a.

# III. Convergence with IFRS: Current State

Statements of Financial Accounting Standards ( 1984-2007 )		International Accounting Standards (IFRS) ( 1975-2007 )	
Number	Title	Number	Title
SFAS 20	Segment Reporting	IAS 14	Segment Reporting
		IFRS 8	Operating Segments
SFAS 22	Income Taxes	IAS 12	Income Taxes

# III. Convergence with IFRS: Current State

Statements of Financial Accounting Standards ( 1984-2007 )		International Accounting Standards (IFRS) ( 1975-2007 )	
Number	Title	Number	Title
SFAS 23	Interim Financial Reporting	IAS 34	Interim Financial Reporting
SFAS 24	Earnings Per Share	IAS 33	Earnings Per Share
SFAS 25	Business Combinations	IFRS 3	Business Combinations

# III. Convergence with IFRS: Current State

Statements of Financial Accounting Standards ( 1984-2007 )		International Accounting Standards (IFRS) ( 1975-2007 )	
Number	Title	Number	Title
SFAS 28	Disclosures in the Financial Statements of Banks	IAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions
SFAS 29	Accounting for Government Grants and Disclosure of Government Assistance	IAS 20	Accounting for Government Grants and Disclosure of Government Assistance

# III. Convergence with IFRS: Current State

Statements of Financial Accounting Standards ( 1984-2007 )		International Accounting Standards (IFRS) ( 1975-2007 )	
Number	Title	Number	Title
SFAS 30	Accounting for Treasury Stocks		n.a.
SFAS 31	Interests in Joint Ventures	IAS 31	Interests in Joint Ventures
SFAS 32	Revenue	IAS 18	Revenue

# III. Convergence with IFRS: Current State

Statements of Financial Accounting Standards ( 1984-2007 )		International Accounting Standards (IFRS) ( 1975-2007 )	
Number	Title	Number	Title
SFAS 33	Accounting for Transfers of Financial Assets and Extinguishments of Liabilities	IAS 39	Financial Instruments: Recognition and Measurement
SFAS 34	Financial Instruments: Recognition and Measurement		

# III. Convergence with IFRS: Current State

Statements of Financial Accounting Standards ( 1984-2007 )		International Accounting Standards (IFRS) ( 1975-2007 )	
Number	Title	Number	Title
SFAS 35	Impairment of Assets	IAS 36	Impairment of Assets
SFAS 36	Financial Instruments: Disclosure and Presentation	IAS 32	Financial Instruments: Presentation
		IFRS 7	Financial Instruments: Disclosures
SFAS 37	Intangible Assets	IAS 38	Intangible Assets

# III. Convergence with IFRS: Current State

Statements of Financial Accounting Standards ( 1984-2007 )		International Accounting Standards (IFRS) ( 1975-2007 )	
Number	Title	Number	Title
SFAS 38	Non-Current Assets Held for Sale and Discontinued Operations	IFRS 5	Non-Current Assets Held for Sale and Discontinued Operations
SFAS 39	Share-based Payment	IFRS 2	Share-based Payment
SFAS 40	Insurance Contracts (Exposure Draft)	IFRS 4	Insurance Contracts
	n.a.(due to low urgency)	IAS29	Financial Reporting in Hyperinflationary Economies

# III. Convergence with IFRS: Current State

Statements of Financial Accounting Standards ( 1984-2007 )		International Accounting Standards (IFRS) ( 1975-2007 )	
Number	Title	Number	Title
	will be issued in 2010	IAS 40	Investment Property
	will be issued in 2010	IAS 41	Agriculture
	n.a.	IFRS 1	First-time Adoption of International Financial Reporting Standards
	will be issued in 2009	IFRS 6	Exploration for and Evaluation of Mineral Resources

# III. Convergence with IFRS: Current State

- A “milestone” standard
  - SFAS No. 34 Accounting for financial instruments
  - Issued in 2003, but effective January 2006
  - Fair value approach
  - Requires accounting and finance knowledge and expertise
  - Requires professional judgments

# III. Convergence with IFRS: Current State

- In September 2004, Financial Supervisory Commission launched a task force to prepare for the adoption of SFAS No. 34
- Three working groups under the task force were formed: Dealing with implementation issues, regulation issues, and promotion and education issues
- Accounting Research and Development Foundation provided training and education programs and co-sponsored seminars.
- ARDF established a special webpage for SFAS No. 34, thereby providing update and Q&A.

# IV. Factors Affecting Convergence with IFRS: A Survey

- Duh, Yen and Chen (2004)
  - 53 chief accountants
  - 68 auditors (average 4 years of experience)
  - 41 academics
  - 19 government officers

# IV. Factors Affecting Convergence with IFRS: A Survey

- Legal and political environment
  - Example: business accounting law (employee bonus shares)
  - Business accounting law has been amended in 2006 to make it consistent with GAAP
  - Inconsistency between tax laws and regulations and GAAP in accounting treatments often increases preparation costs, and lowers the willingness of adopting international norms.

# IV. Factors Affecting Convergence with IFRS: A Survey

- Multinational business experience
  - Multinational business experience enhances firms' exposure to international capital market and facilitates adopting international accounting norms
- Institutional investors
  - Institutional investors demand international convergence of financial accounting standards

# IV. Factors Affecting Convergence with IFRS: A Survey

- Firm size
  - Larger companies are more experienced in raising funds overseas and will be more receptive to international accounting convergence
  - The majority of companies in Taiwan are small and medium enterprises, and therefore are not as receptive as large companies.

# IV. Factors Affecting Convergence with IFRS: A Survey

- Features of IFRS
  - IFRS as a moving target
    - A dilemma: to follow the existing standards or the proposed but not finalized new standards.
    - An example: SFAS No. 34
    - Prior to being effective in 2006, SFAS No. 34 underwent a revision in 2005 to align with the then revised IAS No. 39.
  - Understandability of IFRS
    - Inadequate examples and guidance

# IV. Factors Affecting Convergence with IFRS: A Survey

- Expertise and knowledge
  - Expertise and knowledge are required to implement certain IFRS
  - Fair value accounting is an example

# V. Convergence with IFRS: Outlook

- Faster and more frequent revisions
  - “Pursuit of convergence means more change, as well as some hard questions about balancing the desire for improvement with the real-life costs of multiple iterations of revisions – some of them contentious.” (Mike Rake, Insights into IFRS, 2005/6 Edition, KPMG)

# V. Convergence with IFRS: Outlook

- Interpretations of IFRS
  - Convergence on surface vs. convergence in substance
    - Uniform standards may not be sufficient for uniform quality of accounting information due to inconsistent interpretations on the same standards, giving rise to the issue of uniformity of interpretations.

# V. Convergence with IFRS: Outlook

- IFRIC (formerly SIC) develops interpretations subjects to the approval of IASB.
  - The centralization approach may assure the uniformity of interpretations.
  - Accounting issues vary with urgency, specificity and complexity, and therefore timeliness of interpretations may be affected.
  - Delayed information may lose its relevance to decision-making and control.

# V. Convergence with IFRS: Outlook

- Selectivity is another issue.
  - IFRIC provides interpretations only when the request meets certain criteria.
  - Who will provide the interpretations for the request not meeting the criteria?

# VI. Convergence of Taiwanese Standards with IFRS: Outlook

- Accounting education change
  - Finance and economics
  - Teaching method: Judgment exercises; learn how to learn
- Accounting Research and Development Foundation's Challenges
  - Speed
  - Quality
  - Active involvement in IFRS deliberation process: IASB Memorandum of Understanding (2005)
  - Resources

# VII. Concluding Remarks

- The role of accounting in decision-making and control
- The rise of the issue on international accounting comparability due to the rapid development of global capital markets.
- The organization and operation of ARDF
- The effort made by FASC at converging with IFRS in the past years

# VII. Concluding Remarks

- The factors affecting the implementation of IFRS
- Outlook